

STATE OF WISCONSIN  
DEPARTMENT OF HEALTH AND SOCIAL SERVICES  
DIVISION OF MANAGEMENT SERVICES  
BUREAU OF FISCAL SERVICES

ACCOUNTING POLICY

TOPIC: Audit 4.0	EFFECTIVE DATE: 11/31/92
TITLE: Audit Resolution Policy: Sub-recipient Audits (A-128 and A-133)	REVISION DATE:
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**BACKGROUND**

As an agency receiving federal financial assistance, the Department of Health and Social Services (the Department) has responsibilities regarding audits of sub-recipients receiving \$25,000 or more in pass-through monies from the Department. According to Office of Management and Budget (OMB) Circular A-128 "Audits of State and Local Governments," these responsibilities include:

1. Determining whether the sub-recipient has met the audit requirements of the applicable OMB Circular.
2. Determining through review of the audit report whether the sub-recipient spent financial assistance funds in accordance with applicable laws and regulations.
3. Ensuring that corrective action is taken within six months after receipt of the audit report when there are instances of noncompliance with laws and regulations indicated in the report.
4. Considering whether sub-recipient audits necessitate adjustment of the Department's own records.
5. Requiring each sub-recipient to permit independent auditors to have access to the records and financial statements as necessary to comply with Circular A-128.

Wisconsin Statutes section 46.036 requires sub-recipients to provide the granting agency with a certified financial and compliance audit if the care and services purchased exceed \$25,000. The Department has incorporated into standard language for contracts between the Department and its sub-recipients that sub-recipients "shall submit to the Grantor a certified annual audit report within 180 days of the close of the fiscal year, unless waived by the Grantor. The audit shall be conducted in accordance with applicable state and federal regulations and guidelines and professional standards, including, but not limited to: OMB Circulars A-133 and A-128; the Department's Provider Agency Audit Guide; the Department's Allowable

*Costs Policy Manual*; Section 46.036 of the Wisconsin Statutes; and Generally Accepted Auditing Standards."

The *State Single Audit Guidelines*, issued by the Wisconsin Department of Administration, assigns state cognizant responsibilities to the Department of Health and Social Services for certain agencies having A-128 audits. These responsibilities are detailed in Attachment A.

Sub-recipient audit reports may be one of several types, depending on the circumstances of the entity being audited. For example, local government units, such as counties or Indian tribes which contract with the Department, have audits performed under the requirements of the Single Audit Act of 1984, *OMB Circular A-128*, and the *State Single Audit Guidelines*, while non-profit provider agencies have audits performed under the requirements of *OMB Circular A-133* and the *Provider Agency Audit Guide*. However, regardless of the type of sub-recipient audit, the Department's responsibilities for obtaining, reviewing, resolving, and finalizing the audit are essentially the same.

The Department has had separate policy and procedures statements addressing the various types of sub-recipient audits for which it has audit resolution responsibilities. This policy and procedures statement replaces FMP #28 (State/County Contracts), FMP #30 (Direct Provider/Sub-recipient Audits), FMP #31 (A-128 Audits), and FMP #32 (County and 51 Board Financial Audits) and is effective for all sub-recipient audits for periods beginning on or after 1/1/91.

See Attachment B for a glossary of terms used in this document.

#### **STATEMENT OF POLICY**

The Department's policy is to encourage improved financial and program management of sub-recipient organizations while satisfying its administrative audit requirements as an agency passing federal financial assistance to sub-recipients. To accomplish these goals, the Department will obtain audit reports from those sub-recipients required to have one, review audit reports to determine whether they satisfy applicable audit requirements, resolve audit comments and questioned costs related to the Department's programs, make any necessary cash adjustments, and finalize audits within six months of the receipt of an acceptable report by the Department. As part of the resolution process, audited agencies will, when necessary, develop corrective action plans to address the audit comments and recommendations disclosed in the audit reports. The Department will monitor progress in implementation of the corrective action plan for audit comments and questioned costs related to Department programs.

Meeting these goals requires the cooperative efforts of the audited agency, the auditor, the program divisions, and the Office of Program Review and Audit (OPRA). This document details the division of responsibilities for each of the five stages of the audit review and resolution process for sub-recipient audits: receipt of report, desk review, resolution of audit comments, cash adjustments, and finalization.

OPRA shall maintain a system for tracking the receipt, desk review, resolution of audit comments, and finalization of all sub-recipient audits.

I. **RECEIPT OF AUDIT REPORTS**

The Department has incorporated deadlines for completing audits and/or sending audit reports to the granting agency into various sub-recipient contract documents. The sub-recipient is responsible for ensuring that audits are completed and sent to the Department in a timely manner. OPRA shall monitor the receipt of reports, follow-up on late reports and recommend sanctions when appropriate for failure to send in a report.

**Deadline for Completion of the Audit.** The audits of sub-recipients of financial assistance from the Department shall be completed within the time frame specified in the contract or in sufficient time to allow the sub-recipient to meet the contract deadline for sending the audit report to the grantor, but no later than one year from the end of the audit period.

**Deadline for Receipt.** All sub-recipients of financial assistance from the Department shall send their audit reports to OPRA. The audit reports should be sent to OPRA within thirty (30) days of receipt from the auditor, but no later than the deadline indicated in the contract. If the contract does not specify a deadline for sending the audit report to the contracting agency, or is not subject to deadlines established in law, the audit report should be sent to OPRA no later than thirteen (13) months from the end of the audit period.

**Monitor Receipt.** The program divisions, the Division of Management Services, and OPRA shall identify agencies which are known to be required to have an audit performed and the deadline for receipt of the audit report. OPRA shall maintain this information on a tracking system and shall monitor receipt of audit reports, follow-up on late reports, and recommend to the program divisions when the tracking system indicates that it is appropriate to consider sanctions.

**Required Materials.** The sub-recipient is responsible for ensuring that all required audit materials are sent to the Department. These materials should include the audit report, the Management Letter (or assurance none was issued) and management's responses to all audit comments. As a part of desk review, the reviewer shall request any missing items before accepting the report for resolution of audit comments.

If the missing items are not submitted, the desk reviewer shall decide, based on the materials provided, whether it is feasible to accept the report for resolution. If resolution is possible, the procedures listed below shall be followed. If resolution is not possible, the desk reviewer shall notify the audited agency in

writing that the agency is not in compliance with the contractual requirement to submit an audit and shall indicate the materials which must be submitted to come into compliance and the deadline for submitting those materials.

**Initial Review of Provider Audits.** OPRA shall perform an initial review of provider audits to determine the number and source(s) of financial assistance indicated in an audit report. Provider audit reports showing financial assistance from a single division within the Department shall be forwarded to that division for desk review, resolution of audit comments, and finalization.

## II. **DESK REVIEW**

Audit reports are desk reviewed to determine whether the report meets the applicable OMB Circular and other applicable federal, state and professional standards. Depending on the type of audit and the source(s) of funding, desk reviews may be performed by the program divisions, by OPRA, or by another State agency. For reports which are desk reviewed within the Department, the desk reviewer shall notify the audited agency in writing of the results of the desk review. Results include: accepted for resolution, accepted for resolution but additional materials needed, or cannot be accepted for resolution until additional materials needed are received and/or corrections are made. (For single-funded agencies whose reports are reviewed by the program divisions, the Final Letter may serve the purpose of both the Accept Letter and the Final Letter.) OPRA shall monitor the completion of desk reviews performed within the Department.

**Deadline for Desk Review.** All audits for which another state agency is not the cognizant state agency as determined by the Department of Administration's *State Single Audit Guidelines* shall be desk reviewed within thirty (30) days of receipt of the report. If additional material is needed in order for the report to be accepted, the desk reviewer shall send a letter to the audited agency requesting this information within thirty (30) days of the receipt of the report and shall complete the desk review within thirty (30) days of the receipt of the requested material.

**Desk Review Procedures and Documentation.** In order to ensure completeness and consistency, desk review procedures shall be formally established by the reviewing agency, and the desk review shall be documented through the use of a desk review checklist or other appropriate evidence of review. OPRA shall establish the procedures for A-128 audits and for multiple-funded provider audits. The program divisions shall establish the procedures for their single-funded provider agencies.

1. **A-128 Audits.** The *State Single Audit Guidelines* designate State cognizant agency responsibilities for A-128 audits, which include performing a desk review of

the audit report. OPRA shall be responsible for performing the desk review for A-128 audits for which the Department is the cognizant State agency. (A separate desk review is not required for A-128 audits for which another state agency has been determined to be the state cognizant agency.) The purposes of the desk review are to determine whether the audit meets the requirements of the Single Audit Act of 1984, *Government Auditing Standards*, *OMB Circular A-128*, *State Single Audit Guidelines*, and professional standards.

2. **Provider Audits.** OPRA shall perform the desk review for provider audits with more than one source of funding within the Department. The program division shall perform the desk review for provider audits with a single source of funding within the Department. The purposes of the desk review are to determine whether the audit meets the requirements of *Government Auditing Standards*, *OMB Circular A-133* (if applicable), *Provider Agency Audit Guide*, and professional standards.

**Request for Additional Information.** If the audit report does not meet the applicable requirements for an audit of its type, the desk reviewer shall inform the audited agency in writing of what changes or additional information are needed in order for the audit report to be acceptable. The letter shall indicate that the agency should provide these items within thirty (30) days of the date of the letter.

**Audited Agency Response.** If the desk reviewer requests additional materials and/or corrections to the report, the audited agency and/or its auditor shall provide the information necessary to make the report acceptable, and the agency shall forward the requested items to the desk reviewer.

**Follow-up with Audited Agency.** The desk reviewer shall monitor receipt of responses from the audited agency, follow-up on late responses, and recommend sanctions when appropriate.

**Fraud, Illegal Acts and Irregularities.** The desk reviewer shall inform the Director of OPRA of any fraud, illegal acts, or irregularities disclosed in the audit report. The Director shall inform the Department's Chief Financial Officer, the Department of Administration, the appropriate law enforcement agencies, and/or the appropriate federal and state grantor agencies as conditions warrant.

**Monitor Desk Review.** OPRA shall monitor the progress of the desk review process using a tracking system which includes such information as reviewer performing the desk review, date of any requests for additional information, date of adequate response, and

date of acceptance for resolution of audit comments. The program divisions shall keep OPRA apprised of the status of the review process for audits for which the program divisions perform the desk review.

**Audits Needing Special Attention.** As part of the Department's effort to effectively monitor financial and program performance of its sub-recipients, OPRA shall also include in its tracking system a method for monitoring information on the results of desk review, resolution, and implementation of corrective action plans for agencies which may be having significant problems in the administration of their financial assistance programs.

Determination that an audit report should be given special monitoring attention depends on judgments made by OPRA and division staff. Factors which would normally indicate that an audit should be given special attention include:

- ! Evidence of fraud or potential fraud.
- ! Material non-compliance (material as indicated by the auditor).
- ! Material internal control weaknesses (material as indicated by the auditor).
- ! Doubts about the agency's ability to continue as a going concern.
- ! Other auditor comments or conditions, such as significant amounts of funding to be returned to the state as determined in the resolution process, reportable conditions, numerous findings of non-compliance, and uncorrected on-going problems.

Program division and OPRA staff are jointly responsible for identifying those audits which warrant special monitoring attention and for notifying the Director of OPRA of such designation. All audits designated as needing special monitoring attention shall be periodically re-evaluated to determine whether the additional monitoring efforts should continue.

### III. **RESOLUTION OF AUDIT COMMENTS**

Resolution of audit comments is the process of reviewing audit comments and management's responses and corrective action plan to determine whether the corrective action plan adequately addresses the audit comments and to determine the cash effects, if any, of the audit comments. Depending on the type of audit and the sources of funding received by the auditee, resolution may be performed by program divisions within the Department or by other State Departments. In order to ensure completeness and consistency for resolution of audit comments related to Department programs, resolution procedures shall be formally established by OPRA and by the program divisions and shall be distributed to the appropriate OPRA and program division employees. OPRA shall monitor the resolution process and follow-up on late resolution responses.

**Deadline for Resolution.** As a goal, resolution of audit comments should be completed within thirty (30) days of report acceptance, but in every instance resolution shall be completed within a time period necessary to allow finalization within 180 days of the receipt of an acceptable audit.

**Distribution of Resolution Materials.** For A-128 audits for which the Department is the state cognizant agency, OPRA shall distribute report materials to the audit liaisons in the appropriate program divisions and other state agencies which provided financial assistance to the audited agency. For A-128 audits for which another agency is the state cognizant agency and for provider audits for entities with funding from more than one division within the Department, OPRA shall distribute report materials to the audit liaisons in the appropriate divisions. (The program divisions have already received audits for provider agencies for which their division is the only source of funding from the Department.) The audit liaisons in the program divisions shall distribute resolution materials as required within their respective divisions.

**Resolution of Audit Comments.** Program divisions shall resolve any audit comments related to programs from their division and determine whether management's proposed corrective action plan is acceptable and whether resolution of audit comments results in cash adjustments. OPRA shall coordinate resolution of audit comments that affect programs from more than one division.

Resolution of audit comments shall include:

1. Soliciting input from the appropriate Department program and administrative staff for the programs affected by the audit comments.
2. Determining the cash effects of audit comments and questioned costs based on such factors as the nature of the audit comments, the amount of questioned costs, the corrective action plans, terms of the contracts, funding source restrictions, and Department policies.
3. Determining whether any of the auditor's comments warrants corrective action. Depending on the program division's internal policy and on the resolver's judgment of the significance of the audit comment, resolution may involve coordinating with the agency to develop a formal corrective action plan.

**Corrective Action Plan.** If the program division determines that a corrective action plan is required and if an acceptable corrective action plan was not received with the report materials, the program division shall contact the audited agency and request that a corrective action plan be prepared and sent to the program division.

1. The elements of a corrective action plan are:
  - a. What will be done to correct the problem.
  - b. Who is responsible for implementation of the plan.
  - c. When the plan will be implemented.

OPRA will be available upon request to provide assistance on technical matters and for audit comments cutting across division boundaries.

The program division shall review the corrective action plan to determine whether the corrective action plan adequately addresses the deficiencies.

When the program division and the audited agency have reached agreement on the content of the corrective action plan and the timetable for implementing the plan, the program division shall obtain written agreement that the audited agency will implement the corrective action plan. At this point, the audit comment can be considered to be resolved.

The program division shall monitor the implementation of the corrective action plan. This may include requiring the audited agency to ensure that the audit contract for the subsequent period includes verification of implementation of the corrective action plan. When monitoring audits requiring special monitoring attention (See Section II Desk Review--Audits needing Special Attention), if the program division determines that the agency has failed to implement critical components of the corrective action plan, the program division shall notify OPRA of this fact and the division's plans for seeking compliance with the plan.

If the audited agency does not provide an acceptable corrective action plan or if the agency does not implement the agreed upon corrective action plan, the program division may consider additional steps, including imposing sanctions, to encourage development and/or implementation of an acceptable corrective action plan.

**Division Sign-off.** When A-128 audits or provider audits for agencies with multiple funding sources show audit comments, the program division shall send a sign-off to OPRA indicating that the resolution has been completed. If the division identified a cash adjustment as a result of resolution of audit comments, the sign-off should also identify the amount of the adjustment, the affected program(s), and the method by which the adjustment will be (or was) made.

**Monitor Resolution.** OPRA shall maintain a system for tracking the progress of the resolution process, including such information as who is responsible for resolution, the date the resolution materials were sent, and whether sign-offs have been received. Periodically, OPRA



shall follow up on outstanding resolution responses, requesting specific information on when resolution is expected to be completed.

**Reporting to the Secretary.** OPRA is responsible for reporting to the Secretary on delays in resolution of audit reports which indicate material problems.

IV. **CASH ADJUSTMENTS**

The division initiating the cash adjustment shall notify the BFS-Preaudit Section of all cash adjustments, including payments and recoveries. If cash adjustments need to be made through CARS as a result of the resolution of the audit comments, the office or division which performed the desk review shall send a memorandum to the Preaudit Section describing the amount(s) and coding for the adjustments resulting from A-128 audits. The BFS-Preaudit Section will approve or disapprove the payment method through the Community Aids Reporting System (CARS) or through other appropriate means.

Cash adjustments associated with A-133 (Non-Governmental) audits are to be recorded in the FMS accounting records as accounts payable or receivable at the time the audit is resolved. Divisions are to prepare the required journal voucher for the payable or receivable and forward it to the Chief, BFS Preaudit, along with a copy of the **draft** resolution letter. Indicate on the journal voucher if the cash adjustment is to be made through the CARS system, or if the division will proceed with the adjustment.

In addition, divisions are to quarterly submit a status report to OPRA and BFS on the audit adjustments remaining outstanding.

V. **FINALIZATION**

Finalization is the process of notifying interested parties that the review and resolution process is complete. Depending on the type of audit and the source of funding, finalization may be performed by the program division or by OPRA. Finalization performed by the program division would involve only the Department's interest in the audit. Finalization performed by OPRA may involve the entire state's interest in the audit or just the Department's interest. OPRA shall monitor the finalization process for all audits involving financial assistance from the Department.

**Deadline for Finalization.** The final letter is due within 180 days of the receipt of the report by the Department.

**Final Letter.** When resolution is complete, OPRA or the program division which performed the desk review shall prepare a Final Letter.

1. For A-128 audits for which the department is the cognizant state agency as determined by the *State Single*

*Audit Guidelines*, OPRA shall write to the audited agency and send copies of the Final Letter to the applicable program divisions.

2. For A-128 audits for which another state agency is the cognizant state agency, OPRA shall write to the cognizant agency and send a copy of the Department's sign-off to the applicable program divisions.
3. For provider audits for agencies with multiple funding sources within the Department, OPRA shall write to the audited agency and send a copy of the Final Letter to the applicable program divisions.
4. For provider audits for agencies with a single funding source within the Department, the program division shall write to the audited agency and send a copy of the Final Letter to OPRA.

**Elements of a Final Letter**. When applicable, Final Letters written by OPRA will consider the comments and reflect the resolution decisions made by the program divisions or other departments. The Final Letter should include an indication that the Department and the audited agency have reached agreement on the form of corrective action plan and that progress in implementing the plan will be monitored by the Department and checked by the auditor in the subsequent audit.

**Monitoring Finalization**. OPRA shall maintain a system for monitoring the progress of the Finalization process. The system shall include such information as the reviewer responsible for finalization and the date of the Final Letter.

#### **REFERENCES**

OMB Circular A-128 "Audits of State and Local Governments"  
OMB Circular A-133 "Audits of Institutional Higher Education and Other Non-Profit Institutions"  
DHSS Allowable Costs Policy Manual  
DHSS Provider Agency Audit Guide  
DOA State Single Audit Guidelines

#### **ATTACHMENTS**

- A State Cognizant Responsibilities
- B Terminology

#### **CONTACT PERSON**

Patrick Cooper, Director  
Office of Program Review and Audit  
(608) 267-2846

## ATTACHMENT A

### STATE COGNIZANT RESPONSIBILITIES

Through the *State Single Audit Guidelines*, issued by the Department of Administration, the State of Wisconsin has established a system of state cognizant agencies to oversee implementation of the A-128 audit requirements at the grantee level. The *Guidelines* designate the Department of Health and Social Services to be the state cognizant agency for Counties, 51 Boards, Indian Tribes, and certain other entities. According to the *Guidelines*, the Department's responsibilities include:

1. Providing technical assistance and serving as the state liaison to grantees and independent auditors.
2. Performing desk reviews of single audit reports for compliance with the reporting requirements and for report contents.
3. Conducting quality control reviews of the work of independent auditor who completed selected single audits to determine whether the auditors have followed the required auditing standards and guidelines for single audits.
4. Advising the grantee, in writing, if the audit does not meet the single audit requirements. The grantee will be expected to work with the independent auditor to take corrective action so that the audit report is acceptable.
5. Informing other affected state and federal agencies and appropriate law enforcement officials of any reported instances of fraud, illegal acts or irregularities.
6. Resolving audit findings of programs administered by its agency and coordinating the resolution of Internal Control audit findings that affect the programs of more than one agency. Coordination responsibilities include:
  - ! Coordinating the resolution process with the appropriate state grantor agency(s) when crosscutting internal control findings are reported, and
  - ! Ensuring the resolution process is completed within six months from the receipt of the audit report.
7. Sending final letter of acceptance of the single audit to the auditee and grantor agencies upon completion of audit finding(s) resolution process and/or when unacceptable audit reports or work have been corrected.

## ATTACHMENT B

### TERMINOLOGY

Audit An audit is the determination of the degree of correspondence between quantifiable information and established criteria through the accumulation and evaluation of evidence about the quantifiable information.

Audits covered by this policy and procedures statement may have been performed under the requirements of *OMB Circular A-128* and the *State Single Audit Guidelines* for local governments or *OMB Circular A-133* and/or the *Provider Agency Audit Guide* for provider agencies.

Audit Comments Auditor's comments on internal control weaknesses or compliance findings, such as material weaknesses, reportable conditions, material compliance findings, non-material compliance findings, management letter items, and fraud report comments.

Audited Agency or Sub-recipient A local government or a provider agency which has contracted with the Department to receive federal or state financial assistance.

Auditor The independent Certified Public Accounting firm which performed the audit of the grantee agency.

Grantor agency The state agency or the division within the Department of Health and Social Services which awarded pass-through or state financial assistance to the grantee.

OPRA Office of Program Review and Audit, Department of Health and Social Services.

Program Division The division within the Department of Health and Social Services which awarded pass through or state financial assistance to the grantee.